



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

Finance and Budget Committee

Thursday, March 28, 2013

MEETING MINUTES

Committee Members in Attendance

Bradford Seamon, (Acting) Committee Chairperson
James Patteson
Adam Ortiz
Alethia Nancoo (by phone)

DC WATER STAFF

Leonard Benson, Acting General Manager
Randy Hayman, General Counsel
Mark Kim, Chief Financial Officer
Yvette Downs, Finance & Budget Director
Tayna DeLeon, Manager Risk Management
Linda Manley, Secretary to the Board
Rosalind Inge, AGM Support Services (Acting)

Other Presenters & Guests

David Goodman, Squire Sanders

Call to Order

Acting Committee Chairman Bradford Seamon called the meeting to order at 11:06 a.m.

February 2013 Financial Report

Ms. Downs updated the Finance and Budget Committee on the FY2013 YTD financial performance of the Authority. She reported that with approximately 42 percent of the fiscal year completed, revenues and expenditures were within budgetary expectations. Revenues, Expenditures, and Capital disbursements were at \$192.2 or 43%, \$155.3 or 35%, and \$197.4 or 31% of the revised budgets, respectively. Ms. Downs explained that the variance in the 'Other Revenues' category was primarily due to the Rate Stabilization Fund (RSF) transfers and the Intermunicipal Agreement (IMA) indirect costs, which are not anticipated until the fourth quarter of the fiscal year. Expenditures were generally on track, except that overtime costs were trending higher, because of the winter season and additional work associated with Hurricane Sandy and the Presidential inauguration, but were being closely monitored. In response to Ms. Nancoo's question regarding reimbursement for DC Water's assistance with the Presidential Inauguration, Ms. Downs indicated that a bill for \$250,000 has been submitted to the District for reimbursement.

DC Water's operating reserve averaged \$178 million, or \$52.5 million above the \$125.5 million operating reserve target. At the end of February, the balances in the Rate Stabilization Fund, DC PILOT Fund, and the Operating Reserve Accounts were \$27.9 million, \$14.5 million and \$151.4 million, respectively, resulting in an operating cash balance of \$193.8 million, and total available funds of \$431.1 million. Next, Ms. Downs indicated that the electricity expenditures continue to track favorably to budget, and market conditions are favorable, and staff was continually monitoring the market for opportunities to lock-in favorable rates for the summer months. At the end of February, the

'greater than 90 days' Accounts Receivable balance stood at \$5.8 million, which is lower than January by \$0.1 million and is expected to further decrease during the summer months as there are more cut offs and our collection activity increases.

Investment Performance Report

Mr. Hunt, updated the Committee on the Investment Performance Report for February 2013. He reported that the overall yield-to-cost of the portfolio is 31 basis points and the Authority's investment portfolio remains properly diversified, and is in compliance with DC Water's established Investment Policies. Mr. Hunt reported that a matured certificate of deposit was rolled over for two years at 60 basis points, which is considered good in the current market conditions.

Finance/Procurement Business Process Improvement Update

Ms. Downs stated that the project was undertaken to have a fully functional Procurement system, and increase functionality of the existing financial system. This will entail improving our business processes and adopting best practices in order to establish an efficient Materials Management system. Ms. Downs briefed the Committee on the cost and timeline of the project. Mr. Seamon asked if these costs were solely consultant-based costs or also included internal staff costs. She stated that apart from the software costs, all costs were outside consultants' costs, and no internal staff costs were included. She further confirmed that the project was on target and budget, and that no additional costs are expected unless we increased the scope of the project. Ms. Downs, supported by a Lawson System expert, assured Mr. Seamon that the Grants Management system implementation will adequately remediate the weaknesses noted by the internal auditors, and ensure that all cost-reimbursable expenses are automatically flagged to be billed to the Grant (Grantor).

Mr. Patteson expressed his concern that there might not be enough time for stress-testing the system given the June 2013 'Go Live' date for the Materials Management system, and wanted to know if an inter-departmental team was in place for the required change management. Ms. Rosalind Inge, AGM Support Services (Acting), confirmed that inter-departmental teams had been formed to do the scripting and testing, and that the 'Go Live' date was purposely pushed from May to June, to take care of any glitches that may be encountered. Ms. Inge added that procurement enhancements will continue after the Materials Management system roll-out in June, cutting down procurement time for end-users. These enhancements are projected to be rolled-out by mid-August.

Replying to a question from Mr. Ortiz, Ms. Downs clarified that the \$550,000 payment was a one-time cost for the software, but separate annual maintenance fees will have to be paid, which was already built into the operating budget.

Action Items

Extension of Letters of Credit (Commercial Paper Program)

Mr. Mark Kim, the new CFO, informed the committee that a successful negotiation had resulted in a reduction in the up-front fees of over \$1 million per year, for the extension of the two Letters of Credit that underline DC Water's Commercial Paper Program. In response to Ms. Nanchoo's query, Mr. Kim indicated that given the current market conditions, the most cost-effective and efficient strategy was to renegotiate the two lines with the existing providers rather than go out to bid for new providers and risk failure.

Underwriting Pool

Mr. Kim made a presentation outlining the timeline and steps undertaken for the investment banking underwriter selection process, and pointed the committee to page 3 of the presentation (Attachment 3) listing the names of the 5 Senior Managers and 10 Co-managers being recommended. Mr. Kim further confirmed to Mr. Seamon that there were 4 MWBE firms in the syndicate, with 2 out of the 5 Senior Managers qualifying as MWBE firms. Mr. Kim informed Ms. Nanchoo that the next anticipated bond financing transaction was expected in mid-July (timing subject to DC Water's liquidity and cash-

position), and that staff would select the financing team shortly after the Board approves the proposed underwriting pool.

Mr. Kim, then, invited Mr. David Goodman from Squires Sanders Dempsey to explain the significance of the documents pertaining to the renewal of the Letter of Credit that needed to be approved by the committee. Ms. Nancoo pointed a minor error on page 98 section 11 of the document to change the name "Nixon Peabody, LLP" to "Chapman & Cutler", which was readily acknowledged by Mr. Goodman.

In response to a question from Ms. Nancoo regarding underwriting fees for the next bond financing, Mr. Kim explained that the final fees for the financing will be subject to negotiation, but will not exceed the proposed fees that the firms had submitted. Mr. Kim assured Ms. Nancoo that, as requested by her, there will be a presentation by the senior managers on the financing (after pricing). Mr. Kim further clarified that the current resolution is only for selecting the pool of potential underwriters; a binding, legal agreement, which will require the committee's approval, and will be executed only at the time of underwriting the Bond transaction.

Approval of Independent Risk Management Consultant Fact Sheet

Ms. Tanya DeLeon introduced a Fact Sheet for approval of Independent Risk Management Consultant stating that the recommended firm, Albert Risk Management Consultants, scored the highest of three prospective candidates. In response to Mr. Seamon's question, Ms. DeLeon clarified that the cost reimbursements referred to in the procurement information pertained to travel costs only, and that these costs were part of the proposed contract.

Agenda for April 25, 2013 Committee Meeting

The Committee reviewed and approved the draft agenda.

Adjournment

Hearing no further business, Chairperson Seamon adjourned the meeting at 12:03 p.m.

FOLLOW-UP ITEMS (Meeting held February 28, 2013)

Provide additional information on the proposed Headquarters Building to explain expanded space requirements and other facility work that will be accomplished / eliminated within this project, other options available, and user-share estimates. **(Mr. Firestine and Ms. Nancoo):** *To be discussed at a later date.*